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SECURITY INFORMATION

MEMORANDUM FOR: Assistant Executive Secretary
National Security Council

SUBJECT : Comparative Analysis of Defense Expenditures

1. The attached estimates are crude approximations to the desired information. By the nature of the problem, it is impossible to derive estimates in dollars that are in any sense comparable to similar estimates that might be made for the US. "Defense Expenditures" refers to expenditures specifically listed as defense outlays in the budgets of the countries in question. Except in the case of the USSR, conversion to dollars has been made by using official exchange rates, which bear only the remotest relation to appropriate rates. For the USSR, the ruble is taken as ten rubles to one dollar, that rate being a rough average of ruble-dollar price ratios for a set of comparable US and USSR products and therefore being somewhat less arbitrary than the official rate. We do not have sufficient evidence on the price ratios for other countries to make adjustments in official rates. It is clear, however, that some rates are meaningless. For instance, the official rate of exchange between Polish zlotys and US dollars was recently changed from 102 to 1 to 4 to 1. It should also be pointed out that Bloc fiscal year is the calendar year. The estimates for US fiscal years are merely linear interpolations between calendar years. Finally, we do not have sufficient evidence on the degree of inflation or deflation in Bloc countries to make any estimates at this time in terms of FY 1950 prices.

2. In view of these serious deficiencies, the attached figures should not be considered as finished intelligence attributable to CIA. Along the same lines, we urge that the estimates not be distributed beyond the small circle that is directly concerned with further analysis of these rough figures.

3. We are attaching a recent report on analysis of military expenditures that presents our views on estimates in this field.

/s/
ROBERT AMORY, JR.
Assistant Director

Enclosures
Table of Estimates
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